FDIC State Profile

Summer 2005

South Carolina

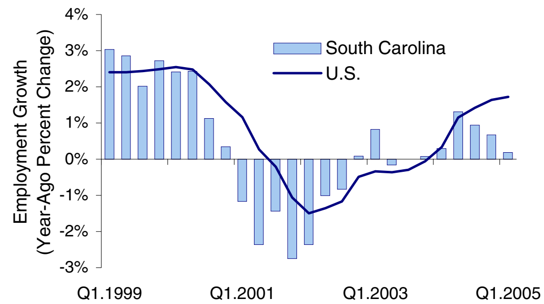
South Carolina's economy stalls while the unemployment rate rises.

- South Carolina's economy stalled in first quarter 2005 as jobless rates neared the highest levels since the recession; employment remained virtually flat from a year earlier (See Chart 1). A slowdown among service-providing sectors is the primary factor in the moderating growth. Within these sectors, the education and professional services sectors have seen the greatest number of layoffs. Job losses in goods-producing sectors, although subsiding, continue to constrain growth.
- Economic performance within the state varied widely. Nearly half the counties in the state experienced worsening joblessness rates. In particular, the **Columbia, Anderson,** and **Sumter** metropolitan areas saw sharp increases in unemployment as traditional manufacturing industries continue to shed workers. In contrast, **Florence** saw tightening labor market conditions as nondurable goods manufacturing losses have recently subsided. Many counties contiguous to Florence, which previously had some of the highest jobless rates in the state, have experienced improved labor market conditions.
- South Carolina's economic outlook appears constrained in the short-term, with only the health care services sector having payroll growth. In contrast, the textile and apparel sector is expected to see accelerated job losses because of rising imports.

Robust residential construction lending by South Carolina community banks is supporting the housing sector.[1]

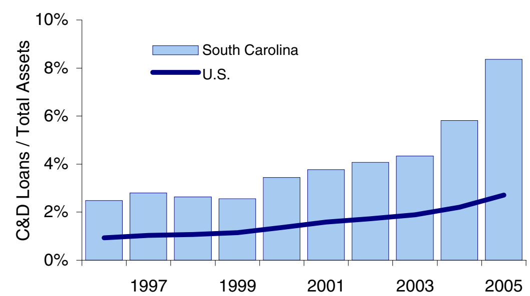
- Despite a lackluster economy, homebuilding remained robust as permitting reached post-recession highs. Residential construction activity is heaviest along coastal areas. **Myrtle Beach** alone accounts for over 20 percent of total permits issued statewide.
- Construction and development (C&D) lending at South Carolina community banks grew nearly 55 percent from a year ago. Subsequently, median C&D loan exposure

Chart 1: Job Growth in South Carolina Has Weakened



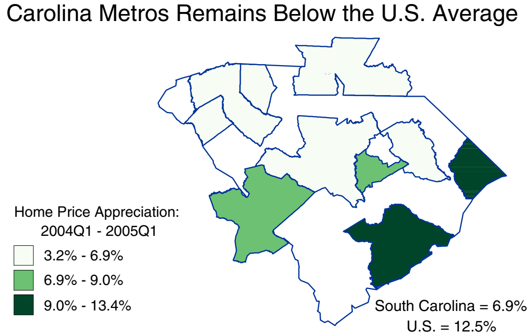
Source: Bureau of Labor Statistics

Chart 2: C&D Lending Continued to Be Robust Among South Carolina Community Banks



Source: FDIC, first quarter data.

Map 1: Home Price Appreciation in Most South Carolina Metros Remains Below the U.S. Average



Source: Office of Federal Housing Enterprise Oversight House Price Index

[1] Community banks include all financial institutions with assets less than $1 billion and exclude specialty and de novo institutions.

rose to 8.4 percent of assets at first quarter 2005, up from 5.8 percent a year earlier. The median C&D exposure level in the state approximated three times the national level (See Chart 2). Institutions headquartered in Myrtle Beach ranked fifth among the nation's metropolitan areas for concentrations with a median C&D loan level equal to 205 percent of capital. Also noteworthy is the **Greenville** metropolitan area that had 136 percent capital exposure to C&D and ranked 26th.

Rapid home price appreciation in coastal markets could slow housing markets.

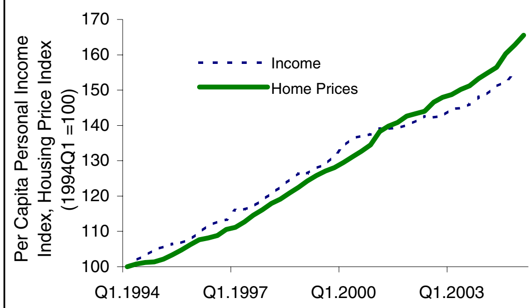
- South Carolina continues to experience below national home price appreciation, ranking 35th among all states. However, home price appreciation continued to exceed median state income growth at first quarter 2005, reaching its highest levels since the recession. The **Charleston** metropolitan area has the highest home price appreciation rate in the state (See Map 1). In contrast, **Spartanburg** and Florence had the lowest home price appreciation among the state's metropolitan areas.

- Incomes in South Carolina have lagged home price appreciation (See Chart 3). While the statewide median home price to income ratio remains below national levels, it reached a record high in 2004 (See Chart 4). In 2004, estimated median household income of $40,434 was slightly below the amount needed to finance the purchase of a median priced house in South Carolina.[2] This shortfall may explain why slightly more than 30 percent of all securitized mortgage originations in the state were interest-only mortgages in 2004.[3] The increased use of innovative lending products may suggest that homebuyers are stretching to purchase higher priced homes. Interest-only mortgages may expose homebuyers to greater repayment risk when the interest rate resets or amortization begins.

Despite an increase in net interest revenue, community bank profitability declined.

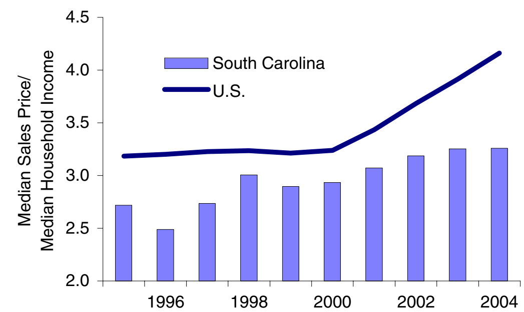
- Return on assets (ROA) at South Carolina community banks has declined in the first quarter in each of the last two years. During the first three months of 2005, ROA fell by a nominal 2 basis points to 1.07 percent compared to the year-earlier period. Although net interest margins expanded, a larger decline in fee income and smaller securities gains led to lower profitability (See Chart 5).

Chart 3: Home Price Appreciation Leads Income



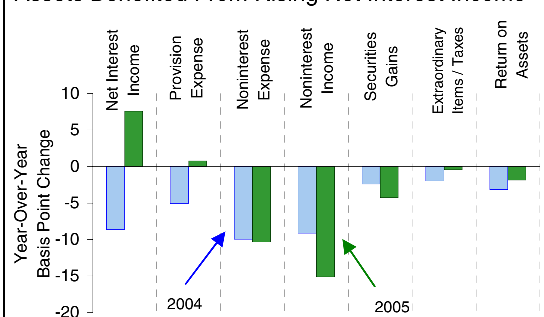
Source: Bureau of Economic Analysis, Office of Federal Housing Enterprise Oversight

Chart 4: South Carolina's Home Price-to-Income Ratios Remain Below the National Average



Source: Bureau of Census and Economy.com

Chart 5: South Carolina Community Bank Return on Assets Benefited From Rising Net Interest Income



Source: FDIC, first quarter data.

[2]Assumes buyer purchases home with a 20 percent down payment, 30-year fixed-rate mortgage, and dedicates 30 percent of gross monthly income to debt service, taxes and insurance.
[3]Peter Coy, "A Growing Tide of Risky Mortgages," Business Week, May 18, 2005.

South Carolina at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.2%	0.3%	0.8%	-2.4%	-1.2%
Manufacturing (15%)	-0.9%	-5.0%	-4.0%	-10.1%	-3.0%
Other (non-manufacturing) Goods-Producing (6%)	-2.7%	0.2%	2.2%	-2.5%	-2.3%
Private Service-Producing (61%)	0.1%	2.1%	2.0%	-0.9%	-0.9%
Government (18%)	2.1%	-1.1%	1.1%	0.7%	0.3%
Unemployment Rate (% of labor force)	6.9	6.7	6.4	5.9	4.8

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	4.0%	3.5%	2.6%	4.7%
Single-Family Home Permits	19.0%	12.8%	8.1%	5.4%	0.6%
Multifamily Building Permits	125.2%	9.2%	-16.8%	13.1%	-54.7%
Existing Home Sales	12.3%	15.9%	10.1%	12.6%	1.9%
Home Price Index	6.9%	4.1%	3.8%	3.7%	6.8%
Bankruptcy Filings per 1000 people (quarterly level)	0.89	0.91	0.95	1.00	0.84

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	98	96	102	103	104
Total Assets (in millions)	46,121	41,495	38,197	34,000	32,635
New Institutions (# < 3 years)	5	4	6	12	17
Subchapter S Institutions	3	3	3	2	2

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.33	1.58	1.87	1.69	1.79
ALLL/Total Loans (median %)	1.22	1.25	1.24	1.19	1.21
ALLL/Noncurrent Loans (median multiple)	2.47	2.20	2.02	2.02	2.12
Net Loan Losses / Total Loans (median %)	0.12	0.14	0.12	0.11	0.12

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.40	9.50	9.70	9.88	10.40
Return on Assets (median %)	0.97	0.98	0.99	0.97	0.93
Pretax Return on Assets (median %)	1.44	1.46	1.51	1.49	1.45
Net Interest Margin (median %)	4.47	4.45	4.41	4.47	4.39
Yield on Earning Assets (median %)	6.97	6.87	7.03	7.24	7.63
Cost of Funding Earning Assets (median %)	2.56	2.48	2.72	2.91	3.38
Provisions to Avg. Assets (median %)	0.24	0.23	0.24	0.26	0.22
Noninterest Income to Avg. Assets (median %)	0.70	0.77	0.80	0.78	0.72
Overhead to Avg. Assets (median %)	3.15	3.14	3.11	3.08	3.06

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	69.9	68.5	67.4	68.3	69.1
Noncore Funding to Assets (median %)	23.4	23.2	23.1	21.9	21.6
Long-term Assets to Assets (median %, call filers)	11.7	12.2	11.7	12.1	14.3
Brokered Deposits (number of institutions)	31	21	19	17	13
Brokered Deposits to Assets (median % for those above)	7.1	3.9	3.5	5.7	2.3

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	82.6	94.9	96.2	95.1	82.6
Commercial Real Estate	262.2	226.8	211.2	185.3	152.9
Construction & Development	81.8	59.9	40.0	41.3	35.5
Multifamily Residential Real Estate	3.3	3.6	3.2	2.2	1.5
Nonresidential Real Estate	171.4	166.9	147.9	118.5	91.8
Residential Real Estate	233.9	231.1	223.8	218.2	217.8
Consumer	38.7	48.8	57.1	65.6	66.7
Agriculture	4.2	4.9	6.0	5.0	4.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Charlotte-Gastonia-Concord, NC-SC	38	78,456	< $250 million	67 (68.4%)
Greenville, SC	28	8,961	$250 million to $1 billion	23 (23.5%)
Columbia, SC	24	8,690	$1 billion to $10 billion	8 (8.2%)
Charleston-North Charleston, SC	22	6,142	> $10 billion	0 (0%)
Augusta-Richmond County, GA-SC	18	5,099		